

CITY OF FAYETTE

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014

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CITY OF FAYETTE

Officials

Before January 2014

Name	Title	Term Expires
Bill Dohrmann	Mayor	Dec 31, 2013
Doug McReynolds	Mayor Pro Tem	Dec 31, 2013
Braulic Caballero	Mayor Pro tem	Dec 31, 2013
Patty Nefzger	Council Member	Dec 31, 2013
Todd Sorensen	Council Member	Dec 31, 2013
Brian Frana	Council Member	Dec 31, 2013
Christie Dennis	City Coordinator/Clerk	Indefinite

After December 2013

Andrew Wenthe	Mayor	Dec 31, 2015
Patty Nefzger	Mayor Pro Tem	Dec 31, 2015
Dan Boberg	Mayor Pro tem	Dec 31, 2015
Kris McGrane	Council Member	Dec 31, 2015
Brian Frana	Council Member	Dec 31, 2015
Richard Patrick	Council Member	Dec 31, 2015
Todd Sorensen	Council Member	Replaced Brian Frana April 21, 2014
Christie Dennis	City Coordinator/Clerk	Indefinite



James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.
Jeremy P. Lockard, C.P.A.

14 East Charles St, PO Box 639
Oelwein, IA 50662
(319)283-1173
Fax (319)283-2799

Independent Accountant's Examination Report

To the Honorable Mayor
and Members of City Council:

We have performed an agreed-upon procedures engagement of the City of Fayette pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Fayette for the period July 1, 2013 through June 30, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6), and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2013 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Fayette, the objective of which is the expression of opinions on City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Fayette, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fayette and other parties to whom the City of Fayette may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fayette during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

October 9, 2014

Detailed Recommendations

(A14) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

(1) Cash – handling, reconciling and recording.

(2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.

(3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.

(4) Payroll – recordkeeping, preparation and distribution.

(5) Utilities – billing, collecting, depositing and posting.

(6) Financial reporting – preparation and reconciling.

(7) Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

(B14) Separately Maintained Records – The Library maintains a checkbook that is not recorded on the City's books. The Library does provide detail of cash accounts on a monthly basis, but does not provide detail of receipts and disbursements till year end. Chapter 384.20 of the Code of Iowa states in part "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." The transactions including revenues and expenses should be recorded on the City's books.

Recommendation – The City should include all separately maintained financial activity including revenues and expenditures on the City books.

(C14) Timesheet Approval – We noted that the city clerk's timesheets were signed, but did not show evidence of approval by management. It was noted through inquiry that management does review timesheets of employees.

Recommendation – The City should document management's review of the city clerk's timesheet by initialing and dating timesheets after completing their review.

(D14) Budget – City disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states, in

part, “public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (E14) Journal Entries – The city clerk has control over multiple duties within the City due to its relatively small size, including preparing and posting journal entries. It was noted that there is no independent approval of journal entries prepared and posted. The listing of adjusting journal entries did not include accounts numbers thus making it difficult to trace.

Recommendation – The City should implement a procedure to have an independent person review and authorize journal entries prepared by the City Clerk such as the City Treasurer. Authorization should be documented by the initials of the reviewer as well as the date of the review. Also, the City should begin including account numbers in the accounting system that identify entries posted as journal entries.

- (F14) Chart of Accounts – The City does not utilize the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee (CFC) on September 25, 2002.

Recommendation – To provide better financial information and control, the CFC chart of accounts, or equivalent, should be followed.

- (G14) Investment Policy-The City’s Investment Policy states”...Deposits in any financial institution shall not exceed the \$1,500,000 approved by the City Council...”, but the Depository Resolution shows a maximum of \$3,500,000 for First State Bank.

Recommendation-Although the City did not exceed the \$3,500,000 stated in the Depository Resolution it did exceed the \$1,500,000 maximum stated in the Investment Policy. The maximum amount in the Investment Policy should be updated to agree with the Depository Resolution.

- (H14) Transfers- The City transferred a total of \$630,645 during the current fiscal year. All transfers should be approved either in the minutes or the budget. No mention of transfers were noted in the minutes and only \$15,349 was budgeted.

Recommendation-All transfer of funds should be either budgeted or noted in the minutes.

- (I14) Arbitrage Policy-The City does not have a policy to monitor compliance with the arbitrage, yield restrictions and rebate requirements under Section 148 of the Federal Internal Revenue Service Rules.

Recommendation-The City should adopt a policy to monitor compliance with Section 148 of the Federal Revenue Service Rules.

- (J14) G.O. Debt Payments-Chapter 384.4 of the Code of Iowa requires that general obligation debt payments be recorded in the Debt Service Fund. Payments on the City's \$150,000 G. O. Bond Debt was made out of Bolger Fund.

Recommendation-In the future all payments on general obligation debt be made out of the Debt Service Fund. A properly authorized transfer made be made from another fund to Debt Service Fund is necessary.

- (K14) Cash Reconciliation-The City was unable to reconcile cash per the bank to cash per its general ledger. There was a \$10 unexplained variance.

Recommendation-The City needs to be able to reconcile from the bank balance to general ledger balance completely.

- (L14) Wage Increase Approval-The Council approves wage increases as a percentage of cost of living for full time employees.

Recommendation-The City should specify the hourly rate or salary by employee, not just the increase.

Staff

This examination was performed by:

Jeremy P. Lockard, CPA
Donald Snitker, CPA
James Remington, Staff Auditor